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How profitable are FX technical trading rules?

Jerry Coakley* Michele Marzano*[‡] John Nankervis*

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Abstract

This paper provides a comprehensive empirical investigation of the profitability of foreign exchange technical trading rules over the 1996:10 - 2015:06 period for 22 currencies quoted in US dollars. It reports evidence of profitability across a universe of 113,148 rules that include traditional moving average rules and those constructed on the basis of technical indicators such as Bollinger bands and the relative strength index. The best trading rules achieve annualised returns of up to 30%. The Step-SPA test (Hsu et al., 2010) results show a sharp fall in the total number of rules that are robust to data snooping bias. Virtually no traditional rule is significant in the 2006-2015 sub-sample, in line with the adaptive markets hypothesis. By contrast, rules based on new technical indicator such as Bollinger Band and relative strength index rules remain robustly profitable across all currencies over the more recent sub-sample.

Key Words: *Data Snooping, Foreign Exchange, Technical Trading, Stepwise SPA test*

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